SOCIAL SECURITY
Office of the Chief Actuary

May 7, 2019

The Honorable John Larson
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives
Washington, DC 20515

Dear Mr. Larson:

Thank you again for the opportunity to testify before the Committee on Ways and Means, Subcommittee on Social Security, at the April 10, 2019 hearing on "Comprehensive Legislative Proposals to Enhance Social Security." It is always a pleasure working with you and everyone associated with the Subcommittee. I hope the information that I provided at the hearing will be helpful. Below I have restated the two questions for the record that you sent to me on April 26, 2019 and have provided answers.

A) In your analyses, how would the Social Security 2100 Act affect benefit levels for current and future generations of retirees, especially Millennials?

First, enactment of the Social Security 2100 Act would make the Social Security Trust Funds "sustainably solvent" by entirely eliminating the prospect of depletion of reserves for Social Security Trust Funds for the foreseeable future under the intermediate assumptions of the 2018 Trustees Report. Considering the OASI and DI benefits and trust funds on a combined basis, the 2018 Trustees Report shows a projected 21-percent shortfall of revenue needed to pay full benefits scheduled in current law at the time of reserve depletion in 2034, and a 26-percent shortfall projected for 2092. If the Social Security 2100 Act were signed into law, the reserves would not be projected to deplete, so the level of benefits payable by Social Security in 2034 would be increased by more than 26 percent, and this increase would rise to at least 35 percent by 2092.

However, the Bill also includes provisions that raise benefits above the level scheduled in current law. Provisions to change the Primary Insurance Amount (PIA) formula would provide an immediate increase for all beneficiaries in 2020 and later, including those who have already been receiving benefits in prior years. Changing to use the Consumer Price Index reflecting purchases by the elderly (CPI-E) would also be expected to provide higher benefits for virtually all beneficiaries in 2020 and later. The modification of the special minimum benefit formula would restore its ability to enhance benefit levels for long-career low earners.

In my letter to you and Senators Blumenthal and Van Hollen of January 30, 2019, we provided tables showing projected changes in benefit levels by future year and career earnings level for selected retired workers. By 2050, the final column in table B1 shows that workers retiring at age 65 would receive between 28 percent and 82 percent higher benefits than would be payable under current law, with the largest increases for low earners with 30-year careers. For example, a 30-year career earner, with average annual earnings at a level of $13,000 in 2018 wage-indexed dollars, would expect a benefit 82 percent above the level payable under current law. In addition, many workers with earnings above the current-law taxable maximum would have increases in benefits based on earnings becoming subject to payroll tax under the Bill. The percentage increases in benefits over what would be payable under current law would be even higher for later years.

B) During the hearing there was discussion of the increase in payroll tax for a Millennial earning $50,000, and the effect that might have on their ability to save for retirement. Can you provide a fuller sense of both the additional payroll tax that would be paid by such individuals and the additional retirement benefits they would expect to receive if the Social Security 2100 Act were enacted?

It was stated in the hearing that a millennial would eventually pay an additional $600 per year on annual earnings of $50,000. However, there was no discussion of the increase a millennial would receive in their subsequent Social Security benefits in retirement under the Social Security 2100 Act. In fact, the increase in future benefits for a millennial at this earnings level would be far greater than the additional payroll tax contributions made by almost any measure.

Pew Research Center defines millennials as individuals born between 1981 and 1996. In 2020, these individuals will be at ages 24 through 39. So, as an example, consider a millennial worker born in 1985 who will turn age 35 in 2020, work until age 64, and then start Social Security retired worker benefits in 2050 at age 65. Also assume this millennial has earnings (expressed in terms of today's dollars, on an average-wage-indexed basis) of about $50,000 per year through age 64. Assuming enactment of the Social Security 2100 Act, this worker will pay an additional $25 in payroll tax during the year 2020, an additional $50 in 2021, an additional $75 in 2022, and so on, reaching an additional $600 in each year 2043 through 2049. The additional payroll taxes paid by the worker would be matched by an equal additional amount paid by his or her employer in these years. Thus, the average additional amount paid by this worker in the 30 years 2020 through 2049 would be about $370 per year in today's dollars, with an equal additional amount paid by the employer, for a total additional payroll tax contribution averaging $740 per year over 30 years.

Consistent with values shown in table B1 of the January 30, 2019 letter, this worker would have a current-law "scheduled" monthly benefit level of about $1,450 in 2050, or about $17,400 per year. However, under current law, the amount that would be actually payable would be closer to $13,760 for the year, because scheduled benefits would be cut by about 21 percent in 2050 after reserves are depleted. Assuming enactment of the Bill, the benefit payable at age 65 would be increased to $17,750. This would be an increase in the payable benefit for the worker of about 30 percent, or about $3,990 per year of retirement in today's dollars. Taking this example a step further, the 35-year old millennial in 2020 has about a 90 percent probability of surviving to age 65, and if he or she does survive, would be expected to live roughly 22 additional years thereafter. Considering discounting for interest, the expected additional benefits in retirement for the millennial earning $50,000 would be over 2.5 times as much as the additional payroll taxes paid by the employee and employer. In addition, enactment of the Bill would also support increased payable benefits should the worker die or become disabled between 2034 and 2050.

It is true, as stated in the hearing, that the proposed increase in payroll tax would likely reduce to a degree the personal savings that millennials would put aside, but we should not forget the additional payable benefits that would also come from enacting the Bill.

I hope this further information will be helpful. If you have any additional questions or need assistance in any way, please let me know.

Sincerely,

Stephen C. Goss

Stephen C. Goss, ASA, MAAA
Chief Actuary

cc: Kathryn Olson